MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

DBM5028 – BUSINESS FINANCE

(For Diploma Students Only)

29 FEBRUARY 2016
9.00 a.m - 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **ELEVEN (11)** pages only excluding the cover page.
2. Answer **ALL** questions.
3. Answers for Section A should be shaded on the OMR sheet provided.
4. For Section B, please write your answer in the answer booklet provided.
5. The formula tables are given in the Appendix.

SECTION A: MULTIPLE CHOICE QUESTIONS (40 marks)
Instruction: Please shade your answers in the OMR sheet provided.

1. Below are basic areas in finance, **EXCEPT**:

   A. Corporate finance.
   B. Investments.
   C. Financial institutions.
   D. Accounting.

2. What is the definition of capital structure?

   A. The mixture of debt and equity maintained by a firm.
   B. The process of planning and managing a firm's long term investments.
   C. A firm's short-term assets and liabilities.
   D. The mixture of assets and common stocks in a firm's inventories.

3. Below are partnership characteristic(s), **EXCEPT:**

   I. Unlimited liability
   II. Easy to transfer ownership
   III. Legal "person"
   IV. Difficult to transfer ownership

   A. I and II
   B. II and III
   C. III and IV
   D. I and IV

4. Chali was appointed by Juliana from MassCom Enterprise as a representative to negotiate the purchase price for an office building for them with Grande Private Limited. What are the roles played by Chali and Juliana respectively?

   A. Both of them are agents.
   B. Both of them are principals.
   C. Chali is the agent while Juliana is the principal.
   D. Chali is the principal while Juliana is the agent.

5. What are the responsibilities of a treasurer?

   I. Cash management.
   II. Financial planning.
   III. Credit management.
   IV. Capital expenditures.

   A. I, II and III
   B. I, III and IV
   C. II, III and IV
   D. All of the above

Continued.....

6. Arrange the assets below from most liquid to the least liquid.

I. Equipment.
II. Cash in hand.
III. Building.
IV. Cash in bank.

A. II, IV, I, III.
B. IV, II, I, III.
C. II, IV, III, I.
D. IV, II, III, I.

Taxable Income (RM)	Tax Rate (%)
0-50,000	15
50,001-75,000	25
75,001-100,000	34
100,001-335,000	39
335,001-10,000,000	34
10,000,001-15,000,000	35
15,000,001-18,333,333	38
18,333,334 +++	35

Table 1

7. By referring to Table 1 above, what is the average tax rate for a firm with taxable income of RM229,950.99?

A. 31.72%
B. 38.92%
C. 43.72%
D. 48.92%

8. Lisa Gerry Berhad has operating cash flow of RM21,280, depreciation of RM920 and interest expense is RM6,500. A net total of RM2,790 was borrowed for long-term debt. The firm spent RM12,260 on fixed assets and increased net working capital by RM3,590. What is the amount of the cash flow to stockholders?

A. RM800
B. RM3,710
C. RM7,980
D. RM8,220

Continued.....

	2015 (RM)
Dividends	420
Retained earnings	752
Tax rate	35%

Table 2

9. Table 2 above shows data from Simon Tech. Inc. Based on data given, compute taxable income given retained earnings for the year 2014 was RM388.

   A. RM784
   B. RM808
   C. RM1,206
   D. RM2,240

10. Melissa is going to invest RM10 today with 5 percent interest so she can receive RM31.50 in 3 years' time. The amount of RM31.50 is referred to as the _____.

    A. true value
    B. present value
    C. future value
    D. discounted value

11. The process of accumulating interest in an investment to earn more interest is called _____.

    A. interest on interest
    B. simple interest
    C. compounding
    D. time valuation

12. Salwa is considering to save RM100 in a bank. Which of the following will produce the highest interest for Salwa?

    A. Save in bank that pays her 10 percent interest compounded monthly.
    B. Save in bank that pays her 10 percent interest compounded quarterly.
    C. Save in bank that pays her 10 percent interest compounded semi-annually.
    D. Save in bank that pays her 10 percent interest compounded annually.

13. Ramesh deposited RM10,000 into his account at CIDB Bank. The bank will pay 3.5 percent interest, compounded annually. How much interest on interest will he earn over the next 12 years?

    A. RM900.00
    B. RM910.69
    C. RM920.00
    D. RM950.00

Continued.....

14. Tania is making a personal loan with Maripan Bank which requires her to do monthly payments of RM350 for the next 6 years. The loan payments can be described by which of the following terms?

    A. Lump sum.
    B. Factor.
    C. Annuity.
    D. Perpetuity.

15. Identify which of the following is related to perpetuity.

    A. Monthly payments that increase forever.
    B. Quarterly payments that increase forever.
    C. Annual payments that are unequal forever.
    D. Annual payments that are equal forever.

16. There are two loans that you are comparing. The first loan requires you to make monthly payments of RM150 for 10 years which starts at the end of each month. The second loan requires you to make monthly payments of RM150 at the beginning of the month for 10 years. The rate of return for both loans is 5 percent. Which one of the following statements is **CORRECT** given this information?

    A. Second loan has both a higher present value annuity and a higher future value annuity than the first loan.
    B. The present value annuity of the first loan is equal to the present value annuity of the second loan.
    C. Second loan will pay more than the first loan.
    D. The future value annuity of the first loan is greater than the future value annuity of the second loan.

17. The following can be computed, **EXCEPT** for _____.

    A. Future value of an annuity due
    B. Present value of annuity due
    C. Future value of perpetuity
    D. Future value of an ordinary annuity

18. Milano took up a RM7,000 loan from a bank which requires him to pay to the bank RM1,000 per month plus the annual interest. The loan term is 5 years. What type of loan has Milano taken up?

    A. Interest-only.
    B. Pure discount.
    C. Complex.
    D. Amortized.

Continued.....

19. The type of long term financing used by both corporations and government entities is _____.

A. common stock
B. retained earning
C. bonds
D. preferred stock

20. The _____ feature permits the issuer to repurchase bonds at a stated price prior to maturity.

A. call
B. put
C. conversion
D. purchase

21. You have just purchased a government bond for RM1,300 that promises to pay RM100 every year over the next six years. The market price of the bond has just increased to RM1,500. A likely reason for this is _____.

A. the interest rates, in general, have increased
B. the interest rates, in general, have decreased
C. the bond is perceived by the market to be more risky now than before
D. the face value of the bond has been increased

22. If a bond pays RM1,000 plus interest at maturity, RM1,000 is called the _____.

A. stated value
B. market value
C. par-value
D. long-term value

23. Harlesha could not attend her company's next Board of Directors meeting as a shareholder on 3rd June 2015. Therefore, she granted the authority to vote on her behalf to the managers of the firm. Which of the following terms is used to describe the method by which Harlesha's shares were voted?

A. Straight.
B. Cumulative.
C. Consent-form.
D. Proxy.

Continued.....

24. SunDown Berhad's common stock is currently selling for RM38 per share and has a dividend yield of 4.5 percent. How much is the dividend amount?

A. RM1.71
B. RM17.10
C. RM8.44
D. RM171.00

25. An agent who buys and sells securities from inventory is called a _____.

A. floor trader.
B. commission broker.
C. dealer.
D. broker.

26. Which one of the following must equal to zero if a firm pays a constant annual dividend?

A. Capital gains yield.
B. Dividend yield.
C. Book value per share.
D. Market value per share.

27. Which of the following is the key difference between common stock and preferred stock?

A. Voting rights
B. Issuer
C. Maturity
D. Fixed versus floating dividend

28. Projects whose cash flows are independent of one another and the acceptance of one does not eliminate the others from further consideration are referred to as _____.

A. capital rationed projects
B. discounted projects
C. independent projects
D. mutually exclusive projects

29. Which one of the following statements is **NOT** an advantage of payback period method?

A. Adjusts for uncertainty of later cash flows.
B. Biased towards liquidity.
C. Easy to calculate.
D. Ignores time value of money.

Continued.....

30. The net present value profile illustrates how the net present value of an investment is affected by which one of the following?

A. Discount rate.
B. Inflation rate.
C. Project's initial cost.
D. Real rate of return.

31. Which one of the following indicates that a project is expected to be rejected?

A. Average accounting rate of return that exceeds the requirement.
B. Negative net present value.
C. Payback period that is less than the requirement.
D. Profitability index more than 1.0.

32. Selected financial statement data from Static Company was presented in Table 3 below. During 2015, net sales were RM950,000, and cost of goods sold was RM770,000. What is the Accounts Receivables Period?

Item	31-Dec-15	31-Dec-14	Average
Inventory	RM80,000	RM60,000	RM70,000
Accounts Receivable	100,000	90,000	95,000
Accounts Payable	75,000	68,000	71,500

Table 3

A. 10 times.
B. 11 times.
C. 33.18 days.
D. 36.50 days.

33. Which one of the following activities is a source of cash?

A. Decreasing long-term debt.
B. Increasing inventory.
C. Increasing fixed assets.
D. Decreasing accounts receivable.

34. The following activities below are the uses of cash **EXCEPT**:

A. Decrease long-term debt.
B. Decrease current liabilities.
C. Increase current liabilities.
D. Decrease equity.

Continued.....

35. What is the length of the firm's operating cycle for Megan Company if they have receivables turnover rate of 8.5, payables turnover rate of 9.6, and inventory turnover rate of 9.2?

A. 86.21 days.
B. 82.61 days.
C. 39.67 days.
D. 42.94 days.

36. _____ are defined as costs which decrease when the level of investment in current assets increases.

A. Carrying costs
B. Cash budget
C. Surplus costs
D. Shortage costs

37. On Sept 11, Morgana purchased RM5,400 of merchandise from a supplier, Merlin. The terms of the sale were 2/5, net 15. The discounted amount due is _____ which is payable not later than _____.

A. RM2,529; Sept 16
B. RM5,592; Sept 26
C. RM5,292; Sept 16
D. RM5,215; Sept 16

38. Firstway Sdn Bhd has an average collection period of 18 days and annual sales of RM694,000. What is the amount of the average investment in accounts receivables?

A. RM20,375
B. RM21,506
C. RM28,700
D. RM34,225

39. Below are types of inventory in manufacturing firm, **EXCEPT**:

A. Raw material.
B. Derived goods.
C. Finished goods.
D. Work-in-progress.

40. Mickey places an order of 680 units of 16 GB pen drive with a unit price of RM35. The supplier offers terms of 1/10, net 35. The supplier is offering a discount of _____ if Mickey within ____ days.

A. RM238; 10
B. RM238; 20
C. RM238; 35
D. RM2,380; 15

Continued.....

SECTION B: STRUCTURED QUESTIONS (60 marks)

Instruction: Please write all your answers in the Answer Booklet provided.

QUESTION 1

Crax Technologies is considering two potential investments; Project C and Project D. Each project requires an initial investment of RM88,000. The inflows associated with each project are shown in Table 4 below. The firm's cost of capital is 12 percent.

[illegible]	Project C (RM)	Project D (RM)
1	20,000	30,000
2	40,000	40,000
3	50,000	20,000
4	20,000	40,000

Table 4

a) Calculate the net present value (NPV) for each project. (5 marks)

b) Calculate each project's payback period. (4 marks)

c) Using your workings in part (a), calculate the profitability index for each project. Round up the answer to four decimal places. (3 marks)

d) Based on NPV, which project would you recommend? (0.5 marks)

e) Based on payback period, which project would you recommend? (0.5 marks)

f) If the projects are mutually exclusive, which project(s) would you recommend? (1 mark)

g) If the projects are independent, which project(s) would you recommend? (1 mark)

(TOTAL 15 MARKS)

QUESTION 2

Sri Setia Company has an outstanding of RM1,000 par-value bond with a 10% coupon interest rate. The bond has 12 years remaining to its maturity date. Based on this situation, answer the following questions:

a) If interest is paid annually, calculate the value of the bond if the required return is:
   i. 12%,
   ii. 10%, and
   iii. 8%. (12 marks)

Continued.....

b) Indicate for each case in part (a) whether the bond is selling at its par value, at discount, or at premium. (3 marks)

(TOTAL 15 MARKS)

QUESTION 3

a) You are working as a consultant in BDB Insurance Company. Haris, a client, is planning to invest his money for retirement. Haris is expecting to have RM100,525 in 25 years' time.

i. How much does Haris need to invest today if he wants to have the amount with a given interest of 5.5 percent? (2 marks)

ii. How much does Haris need to invest today if the given interest is 5 percent compounded quarterly? (2 marks)

b) Arianna has just started to work in a financial company located in Melaka and she is planning to save RM100 per month from her salary for the next 8 years.

i. How much is her saving worth at the end of year 8 if she expects to earn 4 percent interest? (4 marks)

ii. Arianna is also considering to make an investment which will produce cash inflows of RM500 in year one, RM650 in year two, and RM755 in year three. How much does Arianna need to invest today if the rate of return is 5 percent? (4 marks)

c) Salmah took out a 4.5 percent interest-only loan of RM15,000 for 3 years. Construct a repayment table to show the amount of the payment that will be due each year. (3 marks)

(TOTAL 15 MARKS)

QUESTION 4

a) During the year of 2015, Melissa company's stocks currently selling for RM30 per share. Return stated on the firm's stock is 15%. If her company maintains a constant 4 percent growth rate in dividends, how much is the most recent annual dividend per share paid on the stock? (4 marks)

b) Jacob Cereal Berhad had just paid their annual dividend, with amount of RM3. However, based on their recent meeting, the company's management expects to reduce the dividend paid by 2 percent per year, indefinitely. If the market requires an 8 percent return on this stock, how much you are willing to pay for a share today? (4 marks)

Continued.....

c) Gauhar Company is expected to pay the following dividends over the next five years: RM4, RM6, RM8, RM10 and RM2. Afterwards, the company initiates to maintain a constant 5 percent growth rate in dividends, forever. If the required return on the stock is 10 percent, what is the current share price? (7 marks)

(TOTAL 15 MARKS)

[TOTAL 60 MARKS]

End of page.

Appendix

I. The cash flow identity

Cash flow from assets = Cash flow to creditors (bondholders)
+ Cash flow to stockholders (owners)

II. Cash flow from assets

Cash flow from assets = Operating cash flow
− Net capital spending
− Change in net working capital (NWC)

where

Operating cash flow = Earnings before interest and taxes (EBIT)
+ Depreciation − Taxes

Net capital spending = Ending net fixed assets − Beginning net fixed assets
+ Depreciation

Change in NWC = Ending NWC − Beginning NWC

III. Cash flow to creditors (bondholders)

Cash flow to creditors = Interest paid − Net new borrowing

IV. Cash flow to stockholders (owners)

Cash flow to stockholders = Dividends paid − Net new equity raised

I. Symbols

PV = Present value, what future cash flows are worth today
FV_t = Future value, what cash flows are worth in the future at time t
r = Interest rate, rate of return, or discount rate per period—typically, but not always, one year
t = Number of periods—typically, but not always, the number of years
C = Cash amount

II. Future value of C invested per period for t periods at r percent per period

$FV_t = C \times [(1 + r)^t - 1]/r$

A series of identical cash flows paid for a set number of periods is called an annuity, and the term $[(1 + r)^t - 1]/r$ is called the *annuity future value factor.*

III. Present value of C per period for t periods at r percent per period

$PV = C \times \{1 - [1/(1 + r)^t]\}/r$

The term $\{1 - [1/(1 + r)^t]\}/r$ is called the *annuity present value factor.*

IV. Present value of a perpetuity of C per period

$PV = C/r$

A perpetuity has the same cash flow every period forever.

I. Finding the value of a bond

Bond value = $C \times [1 - 1/(1 + r)^t]/r + F/(1 + r)^t$

where

C = Coupon paid each period
r = Rate per period
t = Number of periods
F = Bond s face value

II. Finding the yield on a bond

Given a bond value, coupon, time to maturity, and face value, it is possible to find the implicit discount rate, or yield to maturity, by trial and error only. To do this, try different discount rates in the formula above until the calculated bond value equals the given bond value. Remember that increasing the rate *decreases* the bond value.

I. The general case

In general, the price today of a share of stock, P_0, is the present value of all of its future dividends, D_1, D_2, D_3, . . . :

$$P_0 = \frac{D_1}{(1 + R)^1} + \frac{D_2}{(1 + R)^2} + \frac{D_3}{(1 + R)^3} + \cdots$$

where R is the required return.

II. Constant growth case

If the dividend is constant and equal to D, then the price can be written as:

$$P_0 = \frac{D}{R}$$

If the dividend grows at a steady rate, g, then the price can be written as:

$$P_0 = \frac{D_1}{R - g}$$

This result is called the *dividend growth model.*

III. The required return, R, can be written as the sum of two things:

$$R = D_1/P_0 + g$$

where D_1/P_0 is the *dividend yield* and g is the *capital gains yield* (which is the same thing as the growth rate in dividends for the steady growth case).